

**MINUTES OF THE REGULAR MEETING OF THE  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON  
September 17, 2004  
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Dr. Keith Meredith, Chairperson of the ASRS Board, called the meeting to order at 8:37 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Dr. Keith Meredith, Chairperson  
Ms. Charlotte Borchert  
Mr. Jim Bruner  
Mr. Jaime Gutierrez  
Ms. Anne Mariucci  
Mr. Michael Townsend  
Mr. Lawrence Trachtenberg  
Mr. Steven Zeman

Absent: Mr. Karl Polen

A quorum was present for the purpose of conducting business.

**2. Approval of the Consent Agenda**

**Motion:** Mr. Steven Zeman moved to approve Refunds, Death Benefits, and System Transfers,

*And*

Approve Application and Agreements with the Following Employers:

- Arizona Municipal Water Users Association
- Maricopa Association of Governments (MAG)
- SouthEastern Arizona Governments Organization (SEAGO)
- Arizona School for Integrated Academics & Technologies dba Phoenix Job Corps & Tucson Job Corps
- Mohave Accelerated Elementary School, Inc.

*And*

Approve the minutes of the August 20, 2004, regular meeting of the ASRS Board,

*And*

Approve the Recommended Administrative Law Judge's Decision Regarding Joyce Mills.

Mr. Jim Bruner seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

### **3. Presentation, Discussion and Appropriate Action Regarding a Change to the Proxy Voting Process**

The Investment Review Committee (IRC) recommended modification of the existing proxy voting policy to adopt the proxy voting guidelines established and updated by Institutional Shareholders Services (ISS). These modifications would apply to the voting for the internally-managed equity portfolios; externally-managed U.S. domestic and international equity portfolios would continue to be voted by ASRS. The ASRS Chief Investment Officer or designee shall retain the right to direct external manager voting on any issues.

Mr. Jim Bruner asked about the costs associated with this process. Mr. Matson stated that the ASRS will incur a cost of approximately \$25,000 annually.

Mr. Jaime Gutierrez inquired as to the general practice with other retirement funds. Mr. Matson responded historically proxy voting has been given modest to low priority in the total decision making process of investment management. Proxy voting importance has been heightened over the last five years. Sponsors that have both internal and external managers typically have the external managers vote the proxies. Some sponsors have complicated systems where they use multiple external vendors and internal analytics.

**Motion:** Mr. Lawrence Trachtenberg moved to approve the IRC recommendation to adopt the revised proxy voting policy & procedure.

Mr. Steven Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

### **4. Presentation, Discussion and Appropriate Action Regarding an Educational Presentation on Actuarial Issues**

Mr. Charlie Chittenden, Actuary, Mellon Human Resources & Investor Solutions, provided an educational presentation on the Actuarial Art & Science as Applied to the ASRS. This

presentation was developed by Mr. Tom Cavanaugh who is head of Mellon's governmental practice section.

The Actuary provides three annual reports for the ASRS Board, a report on the Defined Benefit Plan, a report on the Long Term Disability Program, and a report on the Defined Contribution system.

In his presentation, Mr. Chittenden provided information pertaining to the actuarial valuation, administration, projections, and communication. Additionally, he presented on the pension plan policies, cash flow characteristics, the need for actuarial valuations, and selecting assumptions for future events.

Mr. Chittenden also provided information on valuation results, the causes of unfounded actuarial accrued liabilities, the ASRS' funding method, and the ASRS' asset method.

Dr. Bev Cuthbertson, All Arizona School Retirees Association, asked how the value of money affects the contribution rates and the overall scheme of things. Dr. Cuthbertson pointed out the System members who paid 7% on very low salaries starting in 1972 and compared it to members who pay in at a lower rate from about 1996 when the rate started to decline. Mr. Chittenden stated in general, contribution rates are applied to salary which makes it equitable.

Dr. Cuthbertson had a question regarding the 2001 amendment when the multiplier for new retirees went from 2.1% to a graded multiplier of 2.3%. Mr. Chittenden stated at the same time those already retired had received a 5% increase where the multiplier went from 2.0% to 2.1%. This was an attempt to be uniform for everyone whether retired or active.

## **5. Director's Report**

Dr. Meredith noticed the service purchase request backlog as reported in the Director's Report and asked when the backlog was expected to decline.

Mr. Ray Thomas, Assistant Director, Member Services Division, stated the service purchase process has been overbearing issue that is affecting other services because it has forced the ASRS to pull staff from other areas to assist in the service purchase backlog. Mr. Thomas anticipates a decrease in service purchase requests with the implementation of the Actual Present Value (APV).

## **6. Possible Presentation and Discussion Regarding Board Committee Updates**

Mr. Jaime Gutierrez, Chairperson, External Affairs Review Committee (EARC), stated the next meeting of the EARC is scheduled for Friday, October 1, 2004.

Mr. Lawrence Trachtenberg, Chairperson, Investment Review Committee (IRC), stated the IRC is continuing with the search for a small cap growth investment manager. The Real Estate Committee has been meeting and currently in the request for proposal process for real estate

counsel. Mr. Trachtenberg added that the IRC will come back to the Board in approximately one month with changes to the Long Term Disability (LTD) program.

Ms. Charlotte Borchert, Chairperson, Operations Review Committee (ORC), encouraged attendance at the next ORC meeting on September 23, 2004, as there will be a presentation/update on the Information Technology (IT) Plan.

#### **7. Board Requests for Agenda Items**

Mr. Matson suggested a presentation on the plan the ASRS has implemented with respect to limiting the upward trend of contribution rates. He would like to discuss what the ASRS has completed with respect to this plan and where the ASRS is headed.

#### **8. Call to the Public**

Dr. Cuthbertson asked where interested members might go with ideas or questions. Dr. Meredith stated that the ASRS Board is limited in this type of interaction in terms of lobbying for benefits and benefit changes. There is no doubt that it will be a challenge in looking at options in dealing with contribution rate increases.

Mr. Matson suggested that anyone having an idea or comment pertaining to legislation can e-mail Richard Stephenson, Deputy Director, External Affairs or to Mr. Matson. Additionally, members with other ideas can attend the Director's Outreach which will begin in the fourth quarter of 2004.

#### **9. The next ASRS Board meeting is scheduled for Friday, October 15, 2004, at 8:30 a.m., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

#### **10. Adjournment of the ASRS Board**

Dr. Meredith adjourned the September 17, 2004 Board meeting at 10:19 a.m.

ARIZONA STATE RETIREMENT SYSTEM

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Marina Chaves, Secretary

Date

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Paul Matson, Director

Date